

VZCZCXRO2995  
RR RUEHHM  
DE RUEHHI #1149/01 1731023  
ZNR UUUUU ZZH  
R 221023Z JUN 07  
FM AMEMBASSY HANOI  
TO RUEHC/SECSTATE WASHDC 5710  
INFO RUEHHM/AMCONSUL HO CHI MINH 3288  
RUEHGP/AMEMBASSY SINGAPORE 2407  
RUEATRS/DEPT OF TREASURY WASHINGTON DC

UNCLAS SECTION 01 OF 02 HANOI 001149

SIPDIS

TREASURY FOR OASIA  
SINGAPORE FOR REGIONAL TREASURY ATTACHE BAKER  
STATE PASS FEDERAL RESERVE SAN FRANCISCO FOR DFINEMAN

SENSITIVE BUT UNCLASSIFIED  
SIPDIS

E.O. 12958: N/A  
TAGS: [ECON](#) [EFIN](#) [VM](#)  
SUBJECT: Visit to Vietnam of Regional Financial Attache Baker:  
Overview

¶1. (U) This is one of five cables reporting on the May 29-June 1 visit to Vietnam of the U.S. Treasury Department's Susan Baker, the Regional Financial Attache (FinAtt) based in Singapore. This cable provides a general summary of the visit, some notes on institutional reform and tax policy, and a list of Ms. Baker's interlocutors. The other cables report on the macroeconomic situation, the banking sector, developments in the securities markets and the relatively new State Capital Investment Corporation (SCIC).

GENERAL OUTLOOK POSITIVE, THOUGH CHALLENGES REAL  
-----

¶2. (SBU) As septels report in more detail, Vietnam seems to have pulled back from its "crisis mode" of February/March as the stock market has cooled off a bit. Inflation and credit growth, however, have accelerated. The central bank has responded by sharply raising reserve requirements and reportedly increasing open market operations, but is unwilling to use flexible interest rates or exchange rates to help reign in liquidity at this time. Vietnam continues to forge ahead publicly with its unique process of "equitization" (i.e., corporatizing SOEs and distributing shares to interested parties), but public listings of these SOEs remain a separate and distinct step that will take more time.

¶3. (SBU) True privatization is still a long way off for most government holdings, despite the creation of an institution to manage these holdings, the State Capital Investment Corporation (SCIC). Measures designed to reduce regulatory distinctions -- particularly disclosure and custody requirements -- between listed and unlisted companies in the new Securities Law are not being implemented. Vietnamese officials and private sector participants remain nervous about the "wall of money" raised in dedicated Vietnamese investment funds that has generally not yet been invested in local assets.

INSTITUTIONAL REFORMS  
-----

¶4. (SBU) The new National Assembly is expected to make changes to the responsibilities of various economic ministries in the next two to three months. In particular, the Ministry of Planning and Investment (MPI) may lose its ability to approve financing for various projects to the Ministry of Finance (MOF).

¶5. (SBU) The MOF is also keen to take over the State Bank of Vietnam's current prerogative of staffing all the international financial institutions (IMF, World Bank, ADB). According to one MOF official, MPI may shift to becoming more of a think tank on strategic and macro-economic issues, similar to China's National Development Reform Commission (NDRC). Speculation in the press has MPI being renamed as the Ministry of the Economy.

## TAX POLICY

¶6. (SBU) In line with a new tax law implemented in 2006, Vietnam intends to move to a system of self-assessment, with post-audits by the tax authorities where warranted. In 2009, the National Assembly will take up reform of the personal income tax with the goal of broadening the tax base and equalizing resident and non-resident treatment. One State Securities Commission official noted that imposition of a capital gains tax would be difficult until transparency of the over-the-counter market improved. Implementation of the securities law, which would require all public companies to use centralized clearing and settlement, would help with this.

## MEETINGS

¶7. (U) Ms. Baker began her visit in Hanoi, May 29-30 and then traveled to Ho Chi Minh City for meetings May 31-June 1. The following is a list of ministries and offices that Ms. Baker contacted.

### Hanoi:

- \* State Securities Commission: Markets Development Department
- \* State Bank of Vietnam: Foreign Exchange Management Dept., Banking Development Strategy, Banks and Non-bank Financial Institutions, Banking Inspectorate, International Relations Dept.
- \* Ministry of Finance: Tax Policy Dept., Capital Market Division of Banks and Financial Institutions Dept.
- \* State Capital Investment Corporation
- \* World Bank

HANOI 00001149 002 OF 002

- \* Office of the Government: External Relations Dept.
- \* Vietcombank: Financial Institutions Dept.
- \* International Monetary Fund

### HCMC:

- \* BlackHorse Asset Management
- \* HCMC Stock Exchange
- \* State Bank of Vietnam, HCMC branch
- \* Asia Commercial Bank
- \* Indochina Capital
- \* Dragon Capital
- \* Deutsche Bank
- \* HSBC

¶8. FinAtt had a productive trip and Mission looks forward to her next visit to Vietnam.

ALOISI